Retail sales decelerated in March

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- ***INEGI* just published its retail sales report for March. It should be noted that the historical series' base-year was updated to 2013, in line with national accounts**
- **Retail sales (March): 1.6% yoy; Banorte: 2.1%; consensus: 1.8% (range of estimates: -0.2% to 2.5%); previous: 1.8%**
- **In seasonally adjusted terms, retail sales fell 0.2%, breaking with two consecutive months in expansion. With these, 1Q19 growth stood at 0.4% q/q, stronger than the -0.2% of the previous quarter**
- **Despite this deceleration, we believe retail sales will keep growing at a relatively strong pace, supported by real wage gains which so far seem to have compensated for the deceleration in the pace of job creation**
- **Additional factors supporting retail sales include growth in remittances and banking credit to consumers**
- **Tlaxcala showed the highest growth in retail sales during the month (3.5% m/m)**

Retail sales decelerated in March. Income generated increased 1.6% yoy nsa in March, below both consensus at 1.8% and our estimate of 2.1%. We should mention that this figure is distorted by the calendar effect associated with the Easter Holiday. Adjusting for this, sales increased 0.7% yoy sa. On the other hand, retail sales fell 0.2% m/m, contracting for the first time in 1Q19. As a result, the sector grew 0.4% q/q in the latter period, stronger than the -0.2% observed in the previous quarter.

We consider this performance to have been relatively positive taking into account the high degree of uncertainty affecting the local economy, although less dynamic than what would have been suggested by the high levels of consumer confidence, which remains more sensitive to political developments. In the monthly comparison, only two out of nine sectors expanded, including supermarkets and departmental stores (0.4%) and appliances (2.7%), with the latter rebounding after a strong decrease of 5.0% in the previous month. In contrast, the worst performers included glass and hardware (-2.7%) and internet sales (-1.3%). Moreover, more defensive sectors such as food and beverages and health care products retraced by 0.7% and 1%, respectively.

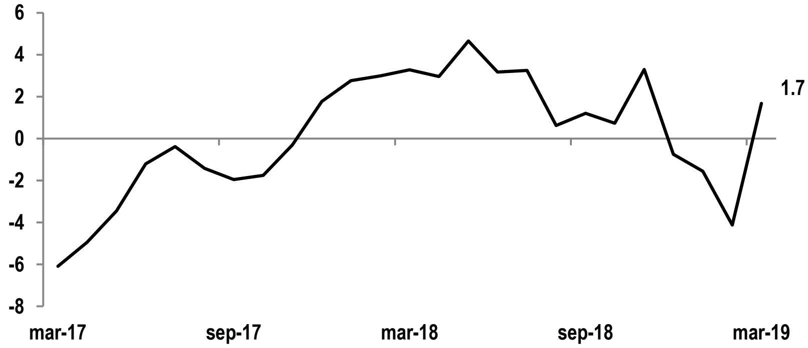
Retail sales: March 2019
% m/m sa; % 3m/3m saar

	% m/m			% 3m/3m saar
	Mar-19	Feb-19	Jan-19	Jan - Mar '19
Retail sales	**1.2**	**2.7**	**-3.5**	**-6.1**
Food, beverages, and tobacco	**-0.2**	**1.1**	**1.3**	**1.7**
Supermarket, convenience, and departmental stores	-0.7	3.0	-4.3	-10.4
Clothing and shoes	0.4	1.8	3.1	11.4
Health care products	-0.1	6.7	-5.4	-7.9
Office, leisure, and other personal use goods	-1.0	0.0	0.6	-1.8
Appliances, computers, and interior decoration	0.0	-1.0	-2.4	-6.2
Glass and hardware shop	2.7	-5.0	3.9	-24.0
Motor Vehicles, auto parts, fuel and lube oil	-2.7	0.3	1.9	-5.5
Internet sales	-1.2	2.2	2.1	3.3

Source: INEGI

The 3m/3m saar rate surged from -4.1% to +1.7%, back to positive territory for the first time since last November. This was primarily driven by the elimination of the weak performance in December 2018 from the calculation, which passed on to be a positive base-effect in this month. In this respect, the significance of this pick up should not be overstated. Nevertheless, it is consistent with our reduced conviction that retail sales growth will decelerate this year.

Retail sales
% 3m/3m saar



Source: INEGI

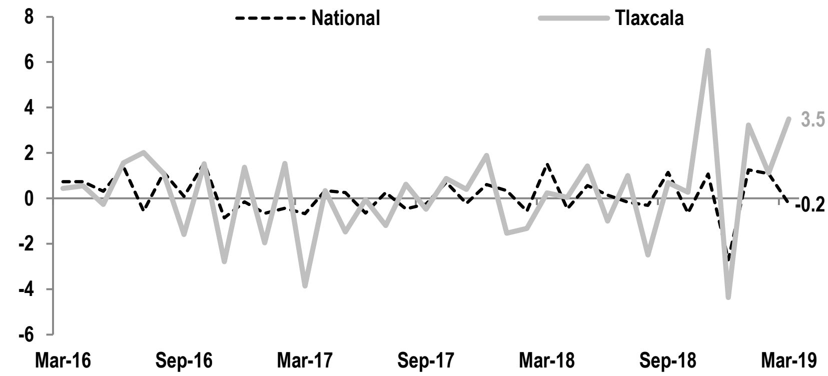
Retail sales back to expansion in 1Q19. Despite broad signs of a deceleration in economic activity at the turn of the year, particularly regarding industry, consumption seems to have held up on fundamentals that remain broadly positive. In this respect, we believe this sector will keep growing and could exhibit a more positive performance in the second half of the year as government programs are fully implemented. Moreover, real wage gains remain elevated (+2.6% in March), which have compensated for the deceleration in the pace of formal job creation. Regarding the latter, growth stood at 2.5% yoy in April, its lowest since March 2010. Given the dynamism observed during the first quarter, we now believe that retail sales will be stronger in 2019 and closer to a 2% annual rate, above the 1.5% observed in the previous year. Despite of the latter, we will look closely at short-term dynamics, as data released so far has been mixed. On the one hand, same-store sales according to *ANTAD* were flat in the annual comparison in April after plunging 3.3% March. On the contrary, auto-sales fell 10.4% yoy, although this figure is likely distorted by the Easter holiday.

The revision and update of historical data is positive considering that they are reweighted with information gathered in the *Economic Census* of 2014. Moreover, it should also be stated that the updated series have been re-indexed to the base year of 2013, the same as in National Accounts, which were lastly revised on October 2017.

At the state level

Tlaxcala showed the highest growth in retail sales during the month (3.5% m/m). This happened after the 1.1% growth in the previous month and posting a considerably higher advance vs. the national average. This represented the highest growth rate in the state since November 2018. It is important to highlight that in the first three months of 2019, retail sales in Tlaxcala registered a 6.8% growth, 10.3pp above the one observed in the same period last year.

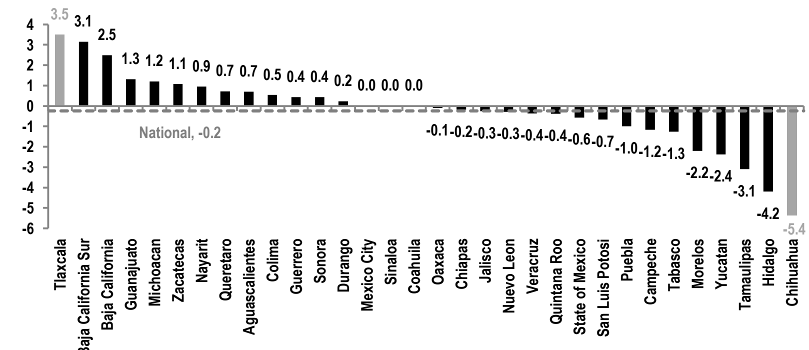
Retail sales in Tlaxcala
% m/m; seasonally adjusted figures



Fuente: Banorte; INEGI

Moreover, retail sales performance in 17 states, including Tlaxcala, outperformed the national average. In this regard, we highlight the expansion in Baja California Sur (3.1% m/m), Baja California (2.5% m/m), Guanajuato (1.3% m/m) and Michoacán (1.2% m/m). By contrast, retail sales revenues in Chihuahua fell 5.4% m/m, as shown in the table below, the worst contraction in the state since September 2018.

Retail sales by state: March 2019
% m/m; sa



Source: Banorte; INEGI

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